



Medicare Fact Sheet

MARCH 2001

**Contact: HCFA Press Office
(202) 690-6145**

SECOND ROUND OF MEDICARE COMPETITIVE BIDDING PROJECT FOR MEDICAL SUPPLIES IN POLK COUNTY, FLA.

Medicare has launched the second round of its successful pilot project in Polk County, Fla., that uses competition to provide quality medical equipment and supplies to beneficiaries at better prices. The Balanced Budget Act of 1997 authorizes the Health Care Financing Administration (HCFA) to demonstrate how competitive bidding can help Medicare beneficiaries and the program pay more reasonable prices for quality medical equipment and supplies. Several studies by the U.S. General Accounting (GAO) and the HHS Inspector General have shown that the Medicare program and its beneficiaries often pay more for medical equipment and supplies than the prices paid by other insurers and individual patients. Requiring suppliers to submit bids including quality and price information assures access to high-quality medical equipment at a fairer price.

During the first round of the Polk County demonstration, HCFA, the agency that administers Medicare, required companies to compete to sell certain medical equipment and supplies to 92,000 Medicare beneficiaries in Polk County. Bids were evaluated on the basis of quality and price. The new rates set by this competitive process are saving individual beneficiaries and Medicare an average of 17 percent on the cost of certain medical supplies, while protecting quality and access for Polk County beneficiaries. The competitive bidding process took place in the spring of 1999. The new rates took effect on Oct. 1, 1999, and will remain in effect until Sept. 30, 2001.

HCFA implemented a similar demonstration in three Texas counties in the San Antonio area – Bexar, Comal and Guadalupe counties. Suppliers who wished to sell products in five categories to Medicare beneficiaries in the region were required to compete on the basis of quality and price in the spring of 2000. As in the Polk County process, the new prices are saving individual beneficiaries and Medicare an average of 20 percent on the cost of certain medical supplies while protecting quality and access for San Antonio beneficiaries. The new rates took effect on Feb. 1, 2001, and will remain in effect until Dec. 31, 2002.

In the second round of the Polk County demonstration, suppliers will again compete on the basis of quality and price for four of categories of medical equipment and supplies categories included in the first round of the pilot. The categories are: oxygen supplies; hospital beds; urological supplies and surgical dressings. The fifth product category, enteral nutrition, is not being included in the second round because the focus of the demonstration is on medical equipment and supplies delivered to the home, and enteral nutrition is primarily provided to nursing home residents. The rates determined for the second round are to take effect on Oct. 1, 2001, and will remain in effect until Sept. 30, 2002.

BACKGROUND

Medicare payment for durable medical equipment and other supplies is currently based on outdated fee schedules required by law. The studies by GAO and the HHS Inspector General have found that, as a result, Medicare payments for many items are far greater than the prices paid by other insurers and sometimes greater than the prices available to the general public at retail stores. For example, the HHS Inspector General found that for semi-electric hospital beds, other insurers paid at least 14 percent less than Medicare did for monthly rentals. GAO found that in 1995 Medicare paid more than the lowest suggested retail price for over 40 types of surgical dressings. According to GAO, the average retail price for a type of urinary catheter in 1996 was 87 cents, while Medicare paid up to \$1.68 for the item.

The Balanced Budget Act of 1997 provides authority to conduct competitive bidding demonstrations for Medicare Part B items and services other than physician services. Under the law, suppliers can receive payments from Medicare for items and services covered by the demonstration only if their bids are competitive in terms of quality and price.

Competitive bidding uses market forces to encourage suppliers to offer reasonably priced items and services of high quality. Using competition to replace the outdated fee schedule rates can lower the costs to beneficiaries and Medicare. The project also limits the co-payment that demonstration suppliers can charge beneficiaries to 20 percent of the demonstration prices. Currently, suppliers that do not accept Medicare assignment can charge beneficiaries any amount above what Medicare pays.

COMPETITIVE BIDDING PROCESS

Bids from suppliers were reviewed for both quality and price. Successful bidders underwent a thorough quality and integrity review. Companies that did not pass this heightened review were not chosen as demonstration suppliers even if their bids fell within the competitive range set by the process. Medicare selected a sufficient number of companies for each product type to ensure that beneficiaries continue to have access to a choice of suppliers.

POLK COUNTY DEMONSTRATION

In the initial round of the Polk County demonstration, Medicare reviewed 73 bids from 30 different suppliers for the following five product categories: oxygen supplies; hospital beds; surgical dressings; enteral nutrition equipment and supplies; and urological supplies. Between four and 13 companies were selected as suppliers for each product type.

The average savings are 17 percent overall, and as high as 30 percent for some products, although prices for individual items may be higher or lower as a result of the competition. Based on the weighted bid prices, the demonstration was expected to lower prices in all five product categories. Additional analysis showed that significant savings were generated in four categories, but higher prices resulted in one small category, surgical dressings.

Polk County was selected as the first site for this project partly because of its demographics. About 92,000 Medicare beneficiaries reside in Polk County, which has a total population of about 450,000. In 1997, Medicare and its beneficiaries paid more than \$6 million on behalf of 4,500 Polk County beneficiaries for supplies in the product categories included in the demonstration.

SAN ANTONIO DEMONSTRATION

After soliciting public input on the Polk County project, Medicare expanded competitive-bidding to the San Antonio region in Texas. It operates in three counties – Bexar, Comal and Guadalupe. Although similar to the Polk County demonstration, the San Antonio demonstration involves some different product categories.

Medicare reviewed 179 bids from 77 different suppliers for the following five product categories: oxygen supplies; hospital beds; manual wheelchairs; non-customized orthotic devices, including "off-the-shelf" items such as braces and splints; and albuterol sulfate and other nebulizer inhalation drugs, which are used to treat lung disease and other conditions. Between six and 29 companies were selected as suppliers for each product type.

The average savings are 20 percent overall, and as high as 26 percent for some products, although prices for individual items may be higher or lower. The new rates took effect on Feb. 1, 2001, and will remain in effect until Dec. 31, 2002.

BENEFICIARY PROTECTIONS

Both the Polk County and San Antonio demonstrations include many safeguards to ensure that Medicare beneficiaries have access to quality supplies and services and a choice of providers:

- Ombudspeople are available in Polk County and San Antonio to address questions and concerns that may arise from beneficiaries, suppliers, doctors and others.
- Medicare is reviewing the track records of bidders to ensure that winners provide quality supplies and have not been involved in criminal activity or fraud.
- Suppliers that fail to provide quality equipment and services are not selected.
- Multiple winning bidders are selected to ensure beneficiaries have good access to quality medical equipment and supplies covered by the demonstration. Supplier locations are considered to ensure access to services throughout the demonstration areas.
- To ensure continuity of care, beneficiaries can maintain existing relationships with oxygen suppliers– even those who fail to submit successful bids. Such suppliers are paid at the price set by the bidding process.
- Beneficiaries can continue existing rental agreements for hospital beds at existing Medicare payment rates until those contracts expire.

DEMONSTRATION OBJECTIVES

The two competitive-bidding projects have five major objectives:

- Limiting beneficiary out-of-pocket expenditures;
- Assuring beneficiary access to high quality medical equipment and supplies;
- Testing competitive bidding policies in the Medicare program;
- Reducing what beneficiaries and Medicare pay for medical equipment and supplies; and
- Providing additional safeguards against business transactions with suppliers who engage in fraudulent practices.

Nationwide, Medicare paid about \$6 billion for equipment and supplies in 1998. Each demonstration includes product categories that account for roughly half of the total expenditures in their region. The competitive bidding process in each site only applies to the specific product categories, and only for beneficiaries who live in the demonstration area. Current coverage and payment rules will remain in effect in other situations, and any Medicare supplier can continue to provide other supplies and services.

